

Change from a position of strength.

Opportunities and benefits of
digitization for small and
medium-sized enterprises.

Evolution instead of revolution: Digitisation in SMEs

THIS WHITE PAPER DESCRIBES

- How digitisation affects companies
- The six biggest advantages of digitisation
- How other companies tackle digitisation
- What strengths you can rely on

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Change from a Position of Strength

Digitisation is a perennial favourite at specialist conferences in all sectors. But reality speaks a different language: Guided by the feeling that digitisation costs a lot, does not have much impact and generally creates confusion rather than clarity, many small and medium-sized enterprises are tackling this topic very hesitantly. But they also suspect that change is inevitable.

There is no reason for to be sceptical about digitisation. You just have to look at it from the other side. If do not do something with digitisation, it will do something with you. Companies like yours in Germany are impressive: 61% of employment and 33% of sales are accounted for by SMEs, according to a recent survey by the Federal Statistical Office (Destatis). And the strengths behind these numbers can also master the challenge digitisation.

But what is digitisation all about?



- Efficient data management and the integration of the Internet of Things ensure better decisions and more efficient processes.
- New technologies automate processes and paths. This increases productivity and effectiveness.
- Separate activities and departments become networked and synchronized.

And even if terms such as Industry 4.0, Smart Factory or Internet of Things still seem vague, they will soon be indispensable in your vocabulary. But here is the good news until then: Digitisation is not a revolution but an evolution. That means: Companies that go along with this trend do not change from being bad to good, but from good to better.

Digitisation in concrete terms



Digitisation is not just something superficial for many companies. When it is consistently thought through, it actually affects every single area of a company. As a rule, changes lead to improvement – because digitisation ensures that the efficiency, flexibility and productivity of a company can increase significantly, processes can be simplified and, in addition, completely new business models can emerge. Here are three examples of impacts on selected business units:

MARKETING AND SALES

Many companies are still satisfied with ticking off the topic of digital marketing by having a website. But: The first website was published 28 years ago. A lot has happened since then, and having your own website is only the tip of the iceberg. It is now about digitising all the relevant marketing measures and interlinking them with the website and correspondingly linked CRM (Customer Relationship Management) and marketing automation systems, such as smart tracking solutions. This ensures marketing and sales interact in the best possible way. By using these technologies, you always know where a customer is in their decision-making process. At every stage between attention and purchase decisions, your marketers can provide customers with the right content through various channels (including website, social media, email) to turn a prospect into a buyer.

HUMAN RESOURCES

You will quickly realise that your company needs to find, retain and develop digital talent for key positions. In the battle for these digital natives (people who grew up with the Internet), your company is in direct competition with attractive start-ups, established Internet companies and international corporations in at least equally as attractive urban locations. So you may have to compensate for some disadvantages. This can be done with:

- Modern workplaces with cloud connection for example
- Home offices and mobile work
- State-of-the-art technology for the development of software and products
- Contemporary project management and development methods

LESSONS FROM DIGITISATION APPLIED TO OTHER AREAS

You have certainly heard about the digitisation of the supply chain. It is changing value chains dramatically. Volatility, complexity and acceleration already shape the production and logistics of many companies today. If you compare how many hubs your company had in their supply chain network five years ago, and how many there are today, you will see that it has grown tremendously. So what saves us from collapse due to all the complexity?

Basically the logistics of tomorrow will be all about intelligent analysis of data and – most importantly – about interdisciplinary teams of designers, developers, software architects, controllers and product managers who can

make it happen. This requires digital talent you can entrust with such projects. Most digital natives have already worked in an interdisciplinary way in start-ups or companies with a strong software focus and do not want to go back to the times of the waterfall model, where powerless developers were confronted with a never ending flood of uncoordinated requirements that they had to carry out.

It has really become absolutely necessary for every CEO and manager to look at the work process in a company that produces digital products. Just seeing the agility with which software is developed by interdisciplinary teams, and how supply chains are digitised and accelerated, will open your eyes.

DID YOU KNOW?

The financing requirements in connection with digitisation and innovation projects are supported by the Kreditanstalt für Wiederaufbau (KfW). Fitting projects can include:

- Networking of ERP and production systems (Industry 4.0)
- Development and implementation of an IT and/or data security concept to successfully protect corporate data and ward off cyber attacks
- Digital platforms, apps and digital distribution channels to build digital platform concepts and e-commerce
- Additive manufacturing processes such as 3D printing as a new innovative production method in manufacturing
- Expansion of in-house broadband networks for a higher data transfer rate in a company

The 6 biggest advantages of digitisation



USE EXISTING DATA – GENERATE NEW DATA

Many companies have been collecting data of all kinds about their business and their underlying processes for decades. But the data is rarely used to derive optimisations. With appropriate data science solutions, however, this data can be consolidated and analysed in order, for example, to create connections between order situations, the economy, utilisation, weather and profit.

In the Internet of Things, IoT, for example, information can be transferred automatically to machines or systems via sensors connected to the Internet, about their capacity utilisation or their wear and tear. Dead inventory can become a practical helper. This allows maintenance cycles to be planned better and downtime to be minimised.

SENSE MOODS – RECOGNISE TRENDS

Customer relationships in the SME sector have often grown over generations. Sometimes products are even developed in close cooperation with selected customers in the respective target group. By keeping you and your company close to the pulse of the market, you can recognise changes and trends sooner. As part of consistent market-data capture, this information has benefits for the product roadmap, board decisions, and corporate strategy.

DIGITISE PROCESSES – BREAK UP SILOS

You may already suspect it: When it comes to digitisation, SMEs have the greatest efficiency, productivity and savings potential in their processes. In an ideal situation the processes are still paper-based and just need to be transferred to the digital age. Care should be taken when doing this not to rely on isolated digital solutions, but to establish systems that can be networked via interfaces. Things become more complex when processes (or departments) exist as isolated silos. In order to reduce communication back alleys and process walls, their place in the overall system first has to be conceptualised in order to digitise the analogue components properly.

TESTO: A CASE FROM PRACTICE

Testo SE & CO KGaA is an exciting example of how serious digitisation is already being done in some companies. The family business from Lenzkirch in the Black Forest has been producing measuring instruments for the most diverse target groups in the craft, pharmaceutical and food industries for more than 60 years. Testo employs more than 2,700 people, has subsidiaries in 33 countries and is the world market leader in many areas. The subject of digitisation is largely been promoted by CEO Burkart Knospe:



“Four or five years ago, we realised that measuring devices only solve a small part of what the customer really needs. When you measure something you usually also want the data. I realised in a conversation with IBM managers that measurement data is just data. That means Testo is really right in the middle of the Internet of Things, Industry 4.0, and Big Data. And in the future our competitors would also include Google etc.”¹

Knospe, who took over the company from his father, quickly realised that the shortage of skilled workers in particular represented a hurdle to digitisation: Testo could not find enough software developers in the Black Forest for the new digital strategy. So the company acted pragmatically and opened an office in Berlin. 40 developers are currently working there. And there should be 50 by the end of 2018.

¹ <https://www.netzwerk-suedbaden.de/testo-vorstand-knospe-im-interview>

Digitisation as a mental attitude

For digitisation to be successful, investment, hiring, and strategy adjustments will only be part of the changes you deal with. What is far more profound – and almost more important – are the soft factors that accompany digital transformation. Ideally, your company already has these factors:



OPENNESS

Digitally successful companies are open to new, unconventional ways of doing things and strongly involve their employees in strategic processes and innovation. That means the direction of flow of pulses changes: Top-down becomes bottom-up. It is important here that the management also has an open ear for new ideas from unexpected places. Quite a few companies work with compensation systems that reward ideas that actually lead to new products or savings.



TRUST

The timing and tempo in your business will increase. So you have to be able to trust your management – just as management has to trust their teams. But if the vision and goal of your digitisation project are transparent, comprehensible and motivating, this may release unforeseen forces. You may even feel a change in the culture of your company – the values and identity may be questioned and adapted to new circumstances. Support these developments with appropriate change management.



FAILURE CULTURE

Digitisation also thrives from trying out new ideas. And failures are necessarily part of this. This is especially true of organisations that are learning to think digitally. So encourage your people to make mistakes – and maybe even lead by example.



WILLINGNESS TO LEARN

New programming languages, new distribution platforms or new production technologies: The digital world is changing daily. Both you and your workforce have to keep up constantly. The idea of lifelong learning has hardly been more relevant than during this era of digitisation. Support this through knowledge management measures.



COMMUNICATION

It may sound like a truism, but it cannot be stressed often enough: Without open and honest communication (and a culture of debate), digitisation with interdisciplinary cooperation and permeable departments cannot succeed. Both technical and interpersonal exchange are important here. Suggestion: Talk to people from different teams on a regular basis to find out how your company communicates.

Use existing strengths

DID YOU KNOW?



“Successful digitisation projects are characterised by a commonality: They are not delegated but implemented with the highest priority by the company management itself.”²

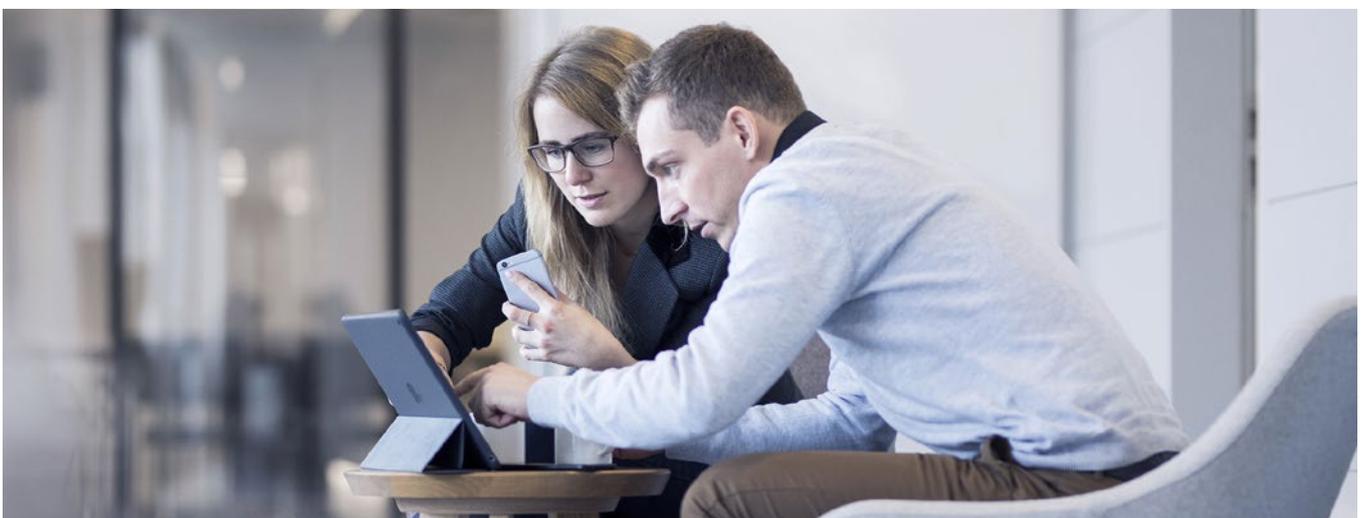
² McKinsey study: “The Digitisation of the German SMEs”, 2017

STRONG OWNER

Digitisation is not only changing the information and buying habits of customers, but all business areas in companies. That is why digitisation cannot be delegated - it is the sole responsibility of the management. Management has the right kind of influence in the SME sector and can act as a digital role model.

POWERFUL BRAND

In a globalised economy there are hardly any local markets left - customers can choose from products from countless national and international companies. When looking at the price and performance of the product you are looking for, you also quickly notice another factor that provides direction and evokes trust: the brand. Thanks to their long history and their equally long-standing customer relationships, which have grown in real life and not through virtual interfaces, SMEs have a clear advantage here.



TECHNOLOGICAL KNOW-HOW

Many SMEs owe their position at the top of the world to their clear product focus and the resulting technological expertise. You and your staff are familiar with the technologies and concepts underlying your products and services down to the last detail. As a result, it will be easy for you to transfer this knowledge to the digital world or to expand digital components.

LONG-TERM ORIENTATION

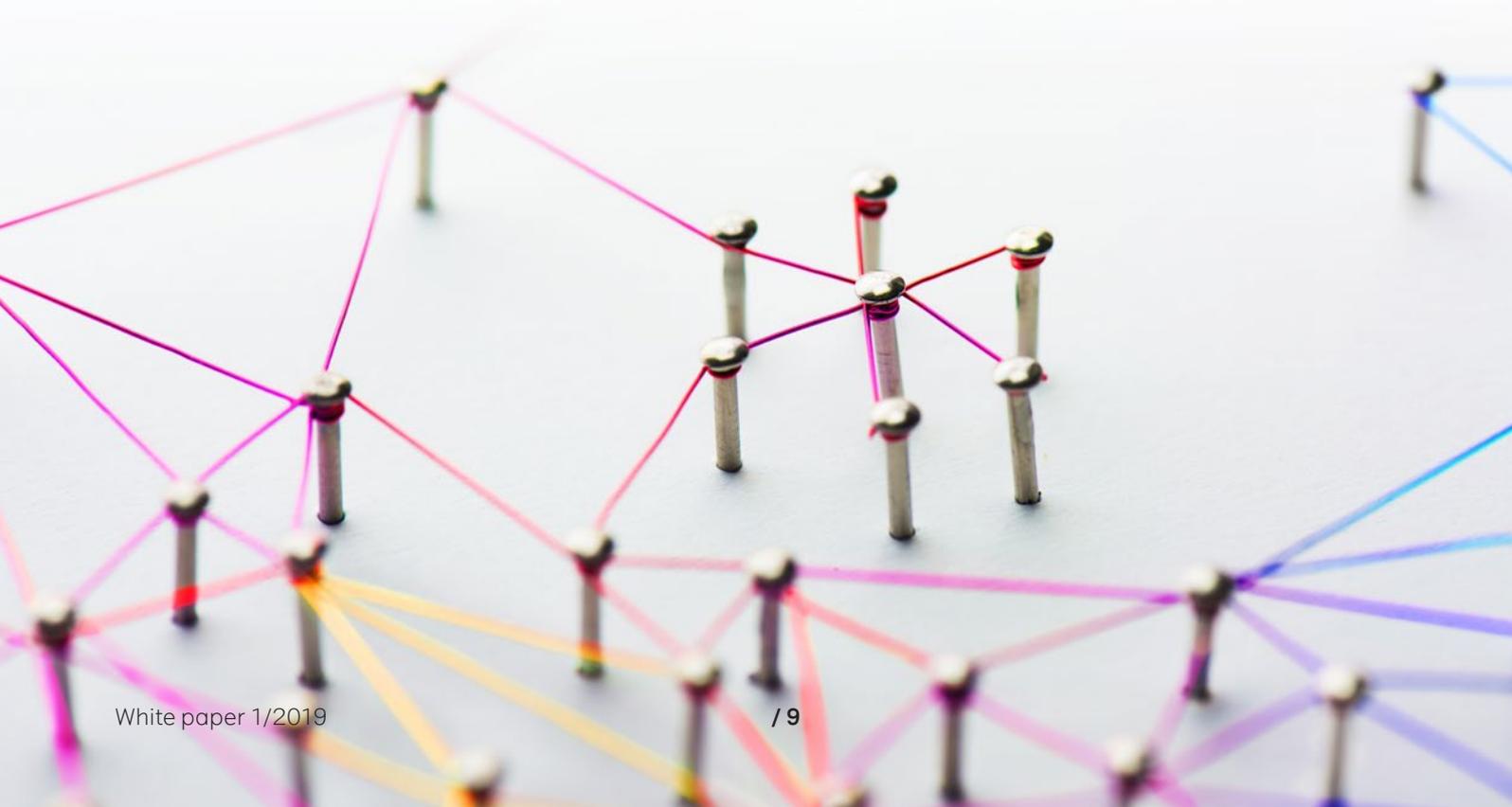
The foundation for today's successes has already been laid in the past for most SMEs. And almost all of them have experienced hard times in their history. During and after these breakthroughs, business models were adapted, errors corrected and new processes established. That is because for SMEs it is important to hand over an economically sound and future-proof company to the next generation. So it stands to reason that such companies will find it easy to view digitisation as an opportunity for the successful development of the company.

FAST DECISIONS

What sets SMEs apart from corporations? Mainly the size. And that is exactly what benefits SMEs in terms of digitisation challenges. After all, digital also means fast – and the short decision-making channels and trusting cooperation in SMEs facilitate correspondingly flexible action. Of course a number of functional silos have to be broken and departmental boundaries have to be relaxed as part of interdisciplinary cooperation in SMEs – but by no means as many as in a large corporation.

STRONG NETWORKING

Networks represent another unbeatable asset SMEs have, which make them the envy of many start-ups: Rooted in their region and in close personal relationship with their customers and suppliers, they are able to work together quickly and confidently, and to jointly develop, test and improve new ideas.



Conclusion: The IT manager becomes the initiator and doer.

Describing digitisation as one of the greatest challenges for German SMEs in recent decades is certainly no exaggeration. The digital transformation is in some ways comparable to globalisation: There is more or less no alternative to either, and observers also anticipated the German economy would face difficult times due to globalisation. But the more concrete the facets of a global economy became, the more benefits it was able to bring to domestic companies – including SMEs.

One difference that may be of particular importance to you as a decision-maker is that digitisation is happening much faster and is also reinforcing the already noticeable effects of globalisation.

Another difference also turns out to be an advantage for you: Digitisation can be used, adapted and scaled individually. That is because there is no such thing as a comprehensive digitisation strategy for all companies. Even within the same industry, the success of one company cannot easily be transferred to another. Many service providers in this sector have made this into their business model and offer custom components as well as complete solutions. Finding external support for certain areas is generally a good idea. This especially true since day-to-day business or regular strategic initiatives might already tie up most of your resources.

This white paper is called “Change from a Position of Strength”. And that is exactly what you should always be clear on when thinking about digitisation: Your company has the exact strengths on its side that it needs to succeed in the digital future due not least to your personal skills. That provides much more than just a foundation. The next step is the development of a digital strategy and prioritisation of the topic in your corporate strategy. However, digitisation should never degenerate into an end in itself. It always has to be about your customers. If you are ever unsure about some step in the digitisation process, just ask yourself: “How does it benefit my customers?” Every answer puts you one step further on the way to the digital future.

SUMMARY

- Trust in your personal skills!
- Remember the strengths of your company!
- Develop a digital strategy and prioritise the topic in your corporate strategy!
- Last but not least: Always think about your customers!



Kontakt

A1 Digital Deutschland GmbH
St.-Martin-Straße 59
81669 München
E-Mail: sales@a1.digital
<https://a1.digital>

Impressum

Registriert im Handelsregister des Amtsgerichts München, HRB 232709 Umsatzsteuer-ID: UID DE31 1826348, Wirtschafts-Identifikationsnummer:
Tax ID 143/111/41741, Vertretungsberechtigten Personen: Elisabetta Castiglioni (CEO), Roland Haidner (CFO)